

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-09 ISO-00 CIAE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

AID-05 COME-00 EB-08 FRB-01 XMB-04 OPIC-06 LAB-04

SIL-01 OMB-01 STR-04 CEA-01 NEA-10 IO-13 AGRE-00 /124 W

-----100620Z 099210 /11

P 100515Z MAR 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 6934

UNCLAS SECTION 1 OF 3 MANILA 3522

USADB

PASS TREASURY FOR ZINMAN

E.O. 11652: N/A

TAGS: EAID, EFIN

SUBJECT: CONGRESSIONAL REQUESTS FOR INFORMATION

REF: (A) TREASURY 77-24, (B) TREASURY 77-26

1. ADB RESPONSE TO REQUEST IN REFTEL A FOR INFORMATION ON GRANT ELEMENT IN ADB LOANS WAS POUCHED (RON MYERS) MARCH 8, AS MATERIAL DID NOT LEND ITSELF TO TELEGRAPHIC TRANSMISSION.

2. FOLLOWING IS ADB RESPONSE TO REFTEL B, WHICH ASKS WHAT SPECIFIC EFFORTS IS BANK INVOLVED IN TO REDUCE UNEMPLOYMENT IN DEVELOPING COUNTRIES:

A. IN ITS EFFORTS EFFORTS TO REDUCE UNEMPLOYMENT IN THE DEVELOPING MEMBER COUNTRIES (DMCS), THE BANK HAS IN RECENT YEARS PAID SPECIAL ATTENTION TO INVESTMENT IN PRODUCTIVE SECTORS, ESPECIALLY AGRICULTURE AND INDUSTRY, WHICH HAVE GREAT POTENTIAL FOR EMPLOYMENT GENERATION. THE SHARE OF AGRICULTURE AND INDUSTRY IN TOTAL BANK LENDING INCREASED TO ABOUT UNCLASSIFIED

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54 PERCENT DURING 1975-76 AS COMPARED TO ABOUT 43 PERCENT DURING 1968-74. THE INCREASE WAS PARTICULARLY LARGE IN AGRICULTURE WHOSE SHARE INCREASED FROM 16 PERCENT DURING 1968-74 TO ABOUT 31 PERCENT DURING 1975-76. THE BANK HAS EMPHASIZED INVESTMENT IN AGRICULTURE AND INDUSTRY EVEN MORE AMONG THE POORER COUNTRIES. THE SHARE OF THESE TWO SECTORS IN SPECIAL FUND LOANS INCREASED FROM ABOUT 46

PERCENT DURING 1968-74 TO ABOUT 72 PERCENT DURING 1975-76.

B. IN ITS LENDING FOR THE AGRICULTURAL SECTOR, THE BANK HAS INCREASINGLY ADOPTED AN INTEGRATED DEVELOPMENT APPROACH TO MAXIMIZE THE BENEFITS TO THE RURAL SECTOR BY IMPROVING AGRICULTURAL PRODUCTIVITY AT THE FARM LEVEL AND BY EXPANDING OTHER PRODUCTIVE ACTIVITIES AND SERVICES. THIS APPROACH IS DESIGNED TO INCREASE BOTH FARM AND NON-FARM PRODUCTIVE EMPLOYMENT AND REDUCE DISPARITIES IN REAL INCOME IN RURAL AREAS. WHILE THE COMPONENTS OF INTEGRATED DEVELOPMENT VARY DEPENDING ON THE SITUATION PREVAILING IN THE PARTICULAR COUNTRY AND THE PROJECT AREA, THE MAIN COMPONENTS CONSIDERED FOR INCLUSION ARE IRRIGATION, PROVISION OF AGRICULTURAL EQUIPMENT, MARKETING AND CREDIT FACILITIES, CONSTRUCTION OF FEEDER ROADS, SOI CONSERVATION, STORAGE AND PROCESSING, ESTABLISHMENT OF PILOT FARMS OR TRAINING CENTERS, REVITALIZATION OF RURAL COOPERATIVES, AND PROVISION OF SOCIAL AMENITIES SUCH AS HOUSING, POTABLE WATER, SCHOOLS, MEDICAL CLINICS, ETC. IT IS ESTIMATED THAT AS A RESULT OF INVESTMENT IN IRRIGATION AND RELATED FACILITIES IN BANK FINANCED PROJECTS, ABOUT 792,000 FARM FAMILIES OR 5 MILLION PEOPLE, MOSTLY SMALL HOLDERS, WILL BENEFIT BY THE BANK LOANS PROVIDED FOR THIS SECTOR UNTIL THE END OF 1976. IN ADDITION, THE RURAL POPULATION WILL SECURE ADDITIONAL EMPLOYMENT AND INCOME THROUGH ASSOCIATED PROJECT CONSTRUCTION ACTIVITIES.

C. IN PROVIDING LOANS FOR AGRO-INDUSTRIES, THE
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CONSIDERATIONS OF EXPORTS, PROVIDING NON-FARM EMPLOYMENT AND ENHANCING THE QUALITY OF THE FINISHED PRODUCTS HAVE BEEN KEPT IN VIEW. MOST OF THE AGRO-INDUSTRIES ARE LOCATED IN RURAL AREAS AND THUS WOULD BENEFIT THE RURAL POPULATION BY PROVIDING NON-FARM EMPLOYMENT TO LANDLESS LABORERS AND GREATER INCOME TO CULTIVATORS. IN A NUMBER OF CASES, SUCH AS THE TEA MACHINERY LOAN TO SRI LANKA AND THE RICE MILLING LOAN TO BURMA, THE MAIN EMPHASIS IS ON UPGRADING THE EXISTING PROCESSING/MILLING TECHNIQUES IN ORDER TO IMPROVE THE QUALITY OF THE PRODUCT. THE TECHNOLOGY ADOPTED HAS BEEN SUCH THAT IN ADDITION TO THE DIRECT EMPLOYMENT IN PROCESSING OF THE PRODUCT, SUBSTANTIAL EMPLOYMENT WILL BE GENERATED IN ANCILLARY ACTIVITIES SUCH AS HANDLING AND TRANSPORT OF MATERIALS ON THE INPUT AND OUTPUT SIDES.

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NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

AID-05 COME-00 EB-08 FRB-01 XMB-04 OPIC-06 LAB-04

SIL-01 OMB-01 STR-04 CEA-01 IO-13 NEA-10 AGRE-00 /124 W

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P 100515Z MAR 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 6935

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PASS TREASURY FOR ZINMAN

D. APART FROM THE LOANS FOR AGRO-INDUSTRIES, THE BANK LOANS FOR INDUSTRIAL DEVELOPMENT HAVE MOSTLY BEEN PROVIDED THROUGH DEVELOPMENT FINANCIAL INSTITUTIONS (DFIS). THESE DFIS ARE INTENDED INTER ALIA TO ASSIST IN THE DEVELOPMENT OF SMALL- AND MEDIUM-SCALE INDUSTRIES. IT HAS BEEN RECOGNIZED THAT SUCH ENTERPRISES GENERALLY EMPLOY TECHNOLOGIES MORE SUITED TO DEVELOPING COUNTRIES. IN THIS RESPECT, THEIR ROLE IN EMPLOYMENT CREATION IS PARTICULARLY SIGNIFICANT. IN RECOGNITION OF THE ROLE OF DFIS IN SOCIO-ECONOMIC DEVELOPMENT, THE BANK HAD LENT \$622 MILLION TO DFIS IN 13 COUNTRIES AS AT THE END OF 1976. OUT OF THIS AMOUNT, 1,583 SUB-LOANS TOTALLING \$385 MILLION FROM THE BANK'S LINE OF CREDIT HAD BEEN APPROVED, A SUBSTANTIAL PART BEING TO MEDIUM- AND SMALL-SCALE INDUSTRIES. IT IS ESTIMATED THAT ENTERPRISES WHICH RECEIVED SUCH SUB-LOANS WOULD EARN OR SAVE FOREIGN EXCHANGE EQUIVALENT TO ABOUT \$225-250 MILLION AND WOULD ALSO GENERATE MORE THAN 12,500 NEW JOBS BY WAY OF DIRECT EMPLOYMENT.

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E. APART FROM AGRICULTURE AND INDUSTRY, TRANSPORTATION, PARTICULARLY ROAD CONSTRUCTION, LENDS ITSELF READILY TO METHODS WHICH ARE BOTH CAPITAL-SAVING AND LABOR-INTENSIVE.

IN ALMOST ALL ROAD IMPROVEMENT AND DEVELOPMENT PROJECTS FINANCED BY THE BANK, TRADITIONALLY LABOR-INTENSIVE ACTIVITIES SUCH AS SITE CLEARING, EXCAVATION OF RAODSIDE DRAINS, SLOPE FORMATION, DRAINAGE PROTECTION MEASURES AND CONSTRUCTION OF CULVERTS HAVE BEEN UNDERTAKEN IN VARIOUS DEGREES. DESIGN STANDARDS AND SPECIFICATIONS OF CIVIL WORKS WERE SUCH THAT LABOR-INTENSIVE METHODS FOR THESE ACTIVITIES COULD BE ADOPTED TO SUIT LOCAL CONDITIONS WITHOUT ADVERSELY AFFECTING THE QUALITY OF CONSTRUCTION. IN ONE OF THE PROPOSED PROJECTS IN BANGLADESH, VERY INTENSIVE USE OF INDIGENOUS LABOR AND RAW MATERIALS FOR ROAD CONSTRUCTION IS PROPOSED. SUCH AN EMPHASIS WILL HENCEFORTH BE CONSIDERED IN COUNTRIES AND AREAS CONTAINING HIGH LEVEL OF UNEMPLOYMENT WITHOUT COMPROMISING ON THE CRITERIA OF EFFICIENCY AND ECONOMY. IN OTHER TRANSPORTATION (I.E., PORT AND RAILWAY) PROJECTS, LABOR INTENSIVE TECHNIQUES ARE ADOPTED WHENEVER POSSIBLE. FOR EXAMPLE, IN THE RAILWAY PROJECTS IN BOTH BANGLADESH AND THE PHILIPPINES, ACTUAL REPLACEMENT OF TRACKS AND BRIDGES WILL BE UNDERTAKEN MANUALLY WITH THE USE OF ONLY SIMPLE EQUIPMENT SUCH AS STEAM/DIESEL CRANES, JACKS, ETC.

F. IN THE AREA OF PUBLIC UTILITIES (PARTICULARLY WATER SUPPLY AND SEWERAGE), DUE CONSIDERATION IS GIVEN BY THE BANK TO PROJECT DESIGN AND CONSTRUCTION METHODS THAT WOULD MAKE MAXIMUM USE OF AVAILABLE LOCAL LABOR. FOR EXAMPLE, IN THE HYDERABAD WATER SUPPLY, SEWERAGE AND DRAINAGE PROJECT IN PAKISTAN, STABILIZATION PONDS HAVE BEEN RECOMMENDED AS A METHOD OF SEWERAGE TREATMENT RATHER THAN THE MORE SOPHISTICATED MECHANICALLY OPERATED ONES. SUCH A METHOD IS LABOR INTENSIVE, IN TERMS OF CONSTRUCTION, OPERATION AND MAINTENANCE.

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G. THE BANK HAS RECENTLY ATTEMPTED TO FORMALIZE METHODOLOGIES FOR ECONOMIC APPRAISAL WITH A VIEW TO ADEQUATELY INCORPORATING EMPLOYMENT AND INCOME DISTRIBUTION EFFECTS TO PROJECTS PROPOSED FOR BANK-FINANCING. WORK IS BEING INITIATED TO ENABLE THE APPLICATION, IN DUE COURSE, OF NEW METHODOLOGIES ON A SELECTIVE AND EXPERIMENTAL BASIS FOR POSSIBLE REFINEMENT AND SUPPLEMENTATION OF THE CURRENT BANK PRACTICE FOR ECONOMIC APPRAISAL OF PROJECTS.

H. THE PRINCIPAL CONCERN OF THE PROPOSED METHODOLOGY, IN REGARD TO EMPLOYMENT EFFECT, IS TO RECOGNIZE AND -- TO THE EXTENT FEASIBLE AND WARRANTED -- TO ESTIMATE THE DIVERGENCE BETWEEN WAGES AND UNSKILLED WORKERS AND THE

OPPORTUNITY COST OF THEIR LABOR ADJUSTED FOR SAVINGS
SUB-OPTIMALITY, IF ANY.

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SIL-01 OMB-01 STR-04 CEA-01 IO-13 NEA-10 AGRE-00 /124 W
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FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 6936

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USADB

PASS TREASURY FOR ZINMAN

I. AS THE BOARD OF DIRECTORS OF THE BANK RECOGNIZED
WHEN DISCUSSING THIS MATTER, AID INSTITUTIONS AS A WHOLE
ARE EVOLVING THEIR PROCEDURES AS YET; AND IN THIS BANK,
PREPARATORY WORK WOULD BE NEEDED TO IMPLMENT THE NEW
METHODOLOGY FOR THE EVALUATION OF PROJECTS. IN THE
FIRST PLACE, FOR THE ESTIMATION OF THE BASIC PARAMETERS
(E.G., SHADOW WAGE RATES OF UNSKILLED LABOR, DEGREE OF
SAVINGS SUB-OPTIMALITY, INCOME DISTRIBUTION WEIGHTS,
ETC.), IT IS NECESSARY TO PREPARE DETAILED TECHNICAL
GUIDELINE PAPERS. SECONDLY, STAFF NEEDS TO BE TRAINED
IN THE USE AND INTERPRETATION OF THESE TECHNIQUES.
THIRDLY, SUSTAINED EFFORTS WILL ALSO BE REQUIRED TO
DEVELOP AN ADEQUATE AND RELIABLE DATA BASE IN THE DMCS
FOR A SYSTEMATIC AND MEANINGFUL APPLICATION OF THE NEW
METHODOLOGY. WORK IS NOW BEING FORMULATED AND INITIATED
WITH A VIEW TO APPLYING SOCIAL COST-BENEFIT ANALYSIS
FOR MANY BANK-ASSISTED PROJECTS IN VARIOUS SECTORS IN
ABOUT TWO YEARS' TIME. THE NEW METHODOLOGY, HOWEVER,
WILL BE APPLIED ON AN EXPERIMENTAL BASIS -- FOR THE
PURPOSE OF REFINING THE APPROACHES ON BASIS OF DATA
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AVAILABILITY -- IMMEDIATELY AFTER THE PREPARATION
OF THE TECHNICAL GUIDELINE PAPERS.

J. THE BANK RECOGNIZES THAT THE POTENTIAL EMPLOYMENT
EFFECTS OF A PROJECT CAN BE REALIZED ONLY IF THEY ARE
ADEQUATELY STUDIED AND INCORPORATED AT THE STAGE OF
PROJECT PREPARATION. THE MAIN ASPECTS WHICH NEED TO BE
GIVEN ADEQUATE ATTENTION DURING THE PROJECT FEASIBILITY
STUDY AND EVEN FOR INSTITUTION-BUILDING ARE THE
FOLLOWING:

(I) SELECTION/ENGAGEMENT OF EXPERTS WHO HAVE
ADEQUATE EXPERIENCE OF THE ECONOMIC MILIEU OF THE
BORROWING COUNTRIES AND HAVE ADEQUATE KNOWLEDGE OF
ALTERNATIVE TECHNOLOGIES SO THAT THE ONE SELECTED IS
APPROPRIATE TO THE OBJECTIVE CONDITIONS OBTAINING IN
THE COUNTRY AND THE PROJECT CONCERNED;

(II) ENGAGEMENT/TRAINING OF LOCAL COUNTERPART
STAFF IN TECHNICAL ASSISTANCE PROJECTS, SO THAT THERE
IS A SUFFICIENT INTERACTION AMONG CONSULTANTS
AND THE COUNTERPART STAFF TO ENSURE THAT THE TECHNICAL
FEASIBILITY REPORTS WOULD PROPOSE INVESTMENT PROJECTS
INCORPORATING DESIGN STANDARDS AND CONSTRUCTION TECHNIQUES
SUITABLE TO LOCAL CONDITIONS. AT THE SAME TIME THIS WILL
BUILD UP LOCAL CAPABILITY FOR PREPARATION OF PROJECTS
HAVING FAVORABLE EMPLOYMENT AND INCOME DISTRIBUTION
EFFECTS; AND

(III) ENSURE THAT THE ORGANIZATIONS WHICH ARE
RESPONSIBLE FOR PROJECT PREPARATION ADOPT SOCIAL COST-
BENEFIT APPRAISAL METHODOLOGY IN ALL APPROPRIATE CASES
SO THAT EMPLOYMENT AND INCOME DISTRIBUTION EFFECTS ARE
PROPERLY TAKEN INTO ACCOUNT IN THE FORMULATION OF PROJECTS.

K. IN THE PAST, THE BANK HAS PAID ATTENTION TO THE
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EMPLOYMENT FACTOR MORE ON A QUALITATIVE THAN ON A
QUANTITATIVE BASIS. THE BANK'S FURTHER ACTION WOULD BE
TO INTRODUCE MEANINGFUL QUANTITATIVE ANALYSES EVEN IF
THIS, TO START WITH, MAY HAVE TO BE ON A SELECTIVE --
PROBABLY REPRESENTATIVE -- BASIS.
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Message Attributes

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Executive Order: N/A
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Review Withdrawn Fields: n/a
SAS ID: 3151592
Secure: OPEN
Status: NATIVE
Subject: CONGRESSIONAL REQUESTS FOR INFORMATION
TAGS: EAID, EFIN, ADB
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/37acd1ba-c288-dd11-92da-001cc4696bcc
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